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UNCLAS LILONGWE 000507

SIPDIS

SENSITIVE

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MCC FOR KEVIN SABA

E.O. 12958: N/A
TAGS: EFIN ECON EINV EAID MI BUD FIN
SUBJECT: MALAWI ADOPTS U.S. TAX RECOMMENDATIONS IN BUDGET

REF: LILONGWE 409

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SUMMARY

¶1. (SBU) In presenting the draft budget to Parliament on 10 June, Malawi's finance minister proposed several tax reforms which follow recommendations made by U.S. Treasury experts. The changes include a higher floor and simpler structure for personal income tax, lower excise rates on most imports, creation of commercial courts, and exemptions for capital gains and capital equipment depreciation. The reforms generally aim for a more regular and business-friendly tax environment in Malawi. End summary.

¶2. (U) Following on an assessment from U.S. Treasury's Office of Technical Assistance, the GOM appears to be ready to adopt a number of tax reforms that Treasury had earlier recommended. The principal reforms are:

- Resetting the personal income tax floor from MK36,000 ($302) per year to MK60,000 ($504)
- Reducing most excise duties by 50 percent
- Changing the refund mechanism to enable prompt VAT and witholding refunds
- Raising depreciation allowances for buildings and computer equipment
- Raising the capital gains exclusion for personal income tax
- Removing a number of discretionary powers from the Ministry of Finance
- Establishing a system of commercial courts for tax cases
- Restructuring the revenue authority's incentives system to expand the tax base rather than maximize revenue
- Enhancing the revenue authority's public image with changes in its customer service organization

¶3. (SBU) Finance Minister Goodall Gondwe had set revenue neutrality as a priority objective in his tax reform scheme, but the local IMF representative has described the program to us as slightly revenue negative. However, Gondwe's speech indicated that the GOM would finally allow retail fuel prices to rise this year, which may generate enough revenue to offset the cost of the reforms.

¶4. (SBU) COMMENT: Gondwe's program is evidence that the GOM is taking the challenge of tax reform seriously. While the private sector's complaints of an arbitrary and dysfunctional tax system are the immediate incentive for this effort, the finance ministry has taken a thoroughgoing approach to the problem. The GOM has consulted very widely with the private sector and civil society to garner suggested reforms, but it appears to be following most closely the advice from the U.S. Treasury and the Malawian society of accountants. That Malawi has opted for a systematic reform rather than a system of patches may be an indication that the government is actually listening to private investors.
GILMOUR